

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

REVIEW REPORT  
OF  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF INDIANA

March 1, 2001 to April 30, 2005





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#### AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Director	John Goss Kenneth Kaczmerick (Interim) Kyle Hupfer	01-21-02 to 01-28-05 01-29-05 to 02-20-05 02-21-02 to 01-11-09
Chairman of the Commission	Michael Kiley	01-13-97 to 01-11-09



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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## INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE DEPARTMENT OF NATURAL RESOURCES

We have reviewed the receipts, disbursements, and assets of the Department of Natural Resources for the period of March 1, 2001, to April 30, 2005. Department of Natural Resources' management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Indiana Department of Natural Resources are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

July 19, 2005

DEPARTMENT OF NATURAL RESOURCES  
REVIEW COMMENTS  
APRIL 30, 2005

ATTENDANCE REPORTS

We observed that 32% of employee attendance reports tested were signed and dated prior to the last day worked. We also observed that 21% of reports tested did not have a supervisor's approval or date of approval and 3% of the attendance reports were not signed by the employee, but by their supervisor. Our prior three reports (B03759, B10772 and B17947) included a similar comment. Internal controls have not been established to ensure that employee attendance reports are properly completed by both the employee and the supervisor.

These deficiencies could result in improper payments to employees.

The Director of Accounting and Payroll should implement controls to ensure that attendance reports are signed and dated by the employee, but not before the last day worked. Controls should also ensure that the supervisor is properly approving and dating the attendance report, and that supervisors are not signing for employees.

The attendance report is to be completed accurately, and be signed and dated by the employee. After being completed by the employee, the attendance report should be reviewed, signed, and dated by the immediate supervisor of the employee, or by another designated individual who has knowledge of the employee's attendance. Employee attendance reports should not be signed, dated or approved prior to the last day worked in a pay period. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 9)

PERSONAL USE OF STATE OWNED VEHICLES

Employees of the Department of Natural Resources (DNR) who are assigned state vehicles for commuting to and from their stations do not correctly claim the commuting. The Internal Revenue Service (IRS) has established that commuting use is taxable income to the employee. DNR has established a Standard Operating Procedure for the proper reporting of commutes by employees. However, DNR did not enforce this Standard Operating Procedure. This caused income for employees to not be correctly reported to the IRS and the Indiana Department of Revenue.

This lack of reporting results in noncompliance with both the IRS and the Indiana Department of Revenue regulations.

The Director of Accounting and Payroll should ensure that its Standard Operating Procedure for reporting commuting use is followed by its employees.

The Internal Revenue Service requires payroll tax withholding and compensation reporting for employees using state-owned vehicles for non-business or commuting purposes. In accordance with IRS guidelines, the Auditor's Office and the Indiana Department of Administration have formulated the State of Indiana Policy on State Provided Vehicles (Revised 5-94). This policy establishes the State's minimum reporting requirements to comply with the IRS regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

DEPARTMENT OF NATURAL RESOURCES  
REVIEW COMMENTS  
APRIL 30, 2005  
(Continued)

MOTOR POOL LOGS

We noted that 79% of Motor Pool Logs (State Form 13696, Report of Vehicle Mileage and Costs) tested were not completed as to beginning and ending mileage, drivers initials or signature, or gasoline and maintenance costs. This resulted from not following the procedures for completion of this required report. An accurate completion of this form helps to ensure the proper use of state owned vehicles and related costs.

When the Motor Pool Logs are not consistently completed, the possibility of employees improperly using state owned vehicles increases.

The division directors for Human Resources, Management Systems, Forestry, Engineering, Nature Preserves, Communications and Oil and Gas should ensure that State Form 13696 is consistently and properly completed by employees when they use state owned vehicles.

Each agency that owns their own vehicle has the responsibility to establish internal policies on recording and reporting the use of state vehicles. In establishing those policies, agencies should keep in mind their responsibility to ensure the vehicles are used for state business, that commuting or other personal use is reported for tax purposes, that gasoline credit cards are used only to fuel state vehicles. The Report of Vehicle Mileage and Costs form may be used for recording use of state vehicles. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 11)

FIXED ASSET INVENTORY

Of the fixed asset items reviewed, 20% had been consistently tagged upon receipt. Also, 50% of additions reviewed had not been included on the inventory listing. Our prior two reports (B10772 and B17947) included a similar comment. Additionally, an annual physical inventory of assets owned has not been conducted. This resulted from not following established state policies.

This lack of accountability for state owned equipment could result in misappropriation of assets.

The Director of Purchasing should ensure that its fixed asset inventory is complete and up to date. A physical inventory should be taken to help ensure accuracy of the fixed asset inventory.

Each state agency is required to report to the Auditor of State all additions and retirements of assets with a cost of \$20,000 or more. Assets costing more than \$500 but less than \$20,000 must be maintained on an asset control system at the agency. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

Assets at the minimum level of \$500 must be tagged. Assets should be tagged upon receipt. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

Once a year, after receiving a Fixed Asset Master Listing, a physical inventory is to be taken and compared to the Master Listing and the agency's listing of assets from its asset control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

DEPARTMENT OF NATURAL RESOURCES  
REVIEW COMMENTS  
APRIL 30, 2005  
(Continued)

SUPPLEMENTATION OF APPROPRIATIONS

The Department of Natural Resources (DNR) deposited refunds for previous fiscal year expenditures as current year refunds. Of the refunds tested, 38% were found to be deposited incorrectly. This was a result of not following established procedure. By recording these deposits as refunds of current year expenditures, DNR is supplementing its State appropriations by the amount deposited and decreasing the amount of funds returned to the State's General Fund.

The Director of Accounting and Payroll should ensure that refunds of prior fiscal year expenditures are deposited as miscellaneous revenue.

A refund of expenditure can only be used if the original disbursement and the refund or collection are within the same fiscal year. If the collection is not received within the same fiscal year as the related expenditure, then the collection must be recorded as miscellaneous revenue. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

DAILY DEPOSITS

The Department of Natural Resources did not consistently deposit receipts collected by the Fish and Wildlife Division, the State Parks Division and the Indiana State Museum by the following business day after receipt of the funds. Our prior two reports (B10772 and B17947) included a similar comment. The Fish and Wildlife Division did not deposit 22% of the receipts tested by the next business day. The State Parks Division did not deposit 48% of the receipts tested by the next business day. The Indiana State Museum did not deposit 30% of the receipts tested by the next business day. This was a result of a lack of internal control over receipts and a violation of Indiana Code.

When receipts are not deposited timely, the possibility that funds may be misplaced or stolen increases.

The division directors for Fish and Wildlife and State Parks, and the Business Administrator for the Indiana State Museum should ensure that receipts for their divisions are deposited by the following business day.

IC 5-13-6-1(b) states in part: ". . . all public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

INTERNAL CONTROL OVER REVENUE COLLECTIONS

Our testing of revenue collections revealed the following deficiencies in the internal control structure:

- (1) Reconciliations of revenue received in the Customer Service Center were not reviewed by a supervisor. As a result, two incorrect reconciliation reports that did not match the deposit amount on the Report of Collections went undetected.
- (2) All Reports of Collections reviewed were not properly completed. The description section of the Report of Collection was not completed.



DEPARTMENT OF NATURAL RESOURCES  
REVIEW COMMENTS  
APRIL 30, 2005  
(Continued)

These deficiencies were caused by a lack of proper control procedures for the review of reconciliations and the preparation of Reports of Collections.

The lack of controls could result in monies being misappropriated or improperly deposited in the incorrect fund center.

The Manager of the Customer Service Center should ensure that reconciliations of revenue are reviewed by a supervisor and that Reports of Collections are properly completed.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

DEPARTMENT OF NATURAL RESOURCES  
EXIT CONFERENCE

The contents of this report were discussed on September 20, 2005, with Todd Tande, Deputy Director of Department of Natural Resources; and John Ryan Jr., Director of Accounting. The official response has been made a part of this report and may be found on pages 9 through 11.

September 30, 2005

Mr. Bruce Hartman  
State Examiner  
State Board of Accounts  
302 W. Washington Street, Rm E418  
Indianapolis, IN 46204

Dear Mr. Hartman:

Audit staff from your agency have recently completed their review work on the Department of Natural Resources for the period March 1, 2001 through April 30, 2005.

The review was extensive and thorough and the review comments contain several suggestions for the DNR to continue to improve various policies and practices. We appreciate the efforts of your review staff.

The pages attached are the DNR responses to the review comments.

Sincerely,



Kyle J. Hupfer  
Director

**STATE BOARD OF ACCOUNTS REVIEW  
FOR THE PERIOD MARCH 1, 2001 THROUGH APRIL 30, 2005  
DEPARTMENT OF NATURAL RESOURCES  
RESPONSE TO REVIEW RESULTS AND COMMENTS  
SEPTEMBER 30, 2005**

The DNR response is in the order of the Review Comments. Each DNR response is identified by the review comment heading.

**ATTENDANCE REPORTS**

DNR Response:       Concur

Corrective Action:   The Director of Accounting and Payroll will be issuing specific instructions for the proper completion of employee attendance reports.

**PERSONAL USE OF STATE OWNED VEHICLES**

DNR Response:       The DNR does not allow personal use of a state owned vehicle. The DNR does agree that the reporting of commuting vehicle use by employees has not been consistently reported in accordance with the departmental Standard Operating Procedure or the state policy.

Corrective Action:   The Director of Accounting and Payroll will remind employees of the proper reporting of commuting use of state vehicles. The payroll section will perform spot checks for compliance with the departmental and state policy.

**MOTOR POOL LOGS**

DNR Response:       Concur

Corrective Action:   Instructions will be provided on proper completion of the state form.

**FIXED ASSET INVENTORY**

DNR Response:       Concur

**Corrective Action:** The DNR has initiated a program under the Director of Purchasing to work on the fixed assets inventory in preparation to implementing PeopleSoft financials.

#### SUPPLEMENTATION OF APPROPRIATIONS

**DNR Response:** Concur

**Corrective Action:** The process has been modified to remove the timing differences on receipt and reporting of refunds.

#### DAILY DEPOSITS

**DNR Response:** Concur. This is an occasional problem. At certain times during the year, it is not possible to receive all the mail, sort out the monies received, mark documents as paid, and prepare the report of collection for deposit of all funds received on that day.

**Corrective Action:** The DNR will continue working on refining and improving processes to get all funds deposited the next business day.

#### INTERNAL CONTROL OVER REVENUE COLLECTIONS

**DNR Response:** Concur.

**Corrective Action:** The DNR has already changed the procedure so the reports of collection from the Customer Service Center are also reviewed and initialed by a supervisor. Instructions have also been given to those preparing reports of collection to be more complete in the use of the description of the revenues collected.